



Missouri Department of Elementary and Secondary Education

— Making a positive difference through education and service —

September 17, 2004

TO: School District Administrators

FROM: Gerri Ogle, Associate Commissioner, Administrative and Financial Services
Denise Pierce, Director, School Finance
Tom Quinn, Director, School Governance

RE: September Financial/Governance/Transportation Information

2004-05 Basic Formula and Line 14 Calculation – First "Live" Payment

The first payment based on the "live" calculation of the 2004-05 Basic Formula and Line 14 apportionment occurred this month, September 2004. ("Live" means all the formula factors have been updated and included in the Department's calculations programs.) The monthly payments for July and August were based on a percentage of the 2003-04 calculation. An adjustment was made in the September payment so that the district will have received, with the September payment, approximately 3/12ths of the September calculation of the 2004-05 Basic Formula and Line 14 apportionments. Corrections for the 2003-04 apportionment were not made with the September 2004 payment, but are expected to be computed in October. **Therefore, neither the amount of the September payment nor the October payment will be the approximate payment amount the district should expect to receive in the remaining months of the 2004-05 year.**

Please review the September 2004 Basic Formula and Line 14 calculation sheet posted under Monthly Financial Reports on the School Finance web page to see the data used in the September calculation for your district. The district may find it useful to compare its estimated 2004-05 Basic Formula and Line 14 calculation to the Department's first calculation and reconcile differences. Changes made by the district after August 30, 2004 to 2003-04 Core Data attendance or calendars, 2003-04 Annual Secretary of the Board Report (ASBR), or 2004-05 Core Data tax rates or estimated eligible pupils (EP) may not be reflected in the September calculation.

2004-05 Basic Formula and Line 14 Calculation Factors:

- a. The payment EP is the greatest of the district's current year estimated EP (2004-05), the first preceding year actual EP (2003-04), or the second preceding year actual EP (2002-03). (The estimated EP field on Core Data Screen 2 should only have been completed if the district has estimated an increased enrollment in 2004-05 compared to 2002-03 and 2003-04, added full-day kindergarten, added or significantly increased summer school for the summer of 2004, or added remediation outside the regular school day in 2004-05 and chooses to be paid on the 2004-05 estimated EP.) The DESE Basic Formula computer program compares the three numbers and uses the highest. No special request by the district is needed for DESE to use the highest number.

The number of payment EP in the June 2004 payment was 887,276. The number of payment EP in the September 2004 payment is 890,502. The FY05 payment eligible pupil number is expected to increase by the June 2005 payment as districts review the attendance data throughout the year and submit revisions to estimates. The payment EP change from September 2003 to June 2004 was 3,581.

Remember, if the district does estimate, this number should be checked for reasonableness throughout the year. If the estimate is high, and causes the formula dollars the district receives to be greater than 105% of what the district should have received, the district will be charged a 6% interest penalty on the excess payment. This interest penalty is in addition to the negative correction for the overestimated EP and is applied in the following year when DESE recalculates the prior year apportionment.

- b. The GTB used in the calculation of Lines 1A & B and Line 14A is \$155,536. The GTB used in the calculation of Line 14B is \$119,163.
- c. The proration factors computed in the September 2004 Basic Formula and Line 14 calculations are:

	<u>Line 1A</u>	<u>Line 1B</u>	<u>Line 14A</u>	<u>Line 14B</u>
September 2004	0.88487291	0.83487291	0.84890002	0.79890002

The Line 1 proration factors will likely decrease in future months and may be approximately .87 and .82, respectively, by June 2005. These proration factor projections are higher than previously provided because several districts with recently voted tax increases are not levying the full increase in 2004-05. The Line 14 proration factors will most likely remain fairly stable.

Please note that the factors for Line 1 and Line 14 are not the same. The amount of money appropriated for Line 14 was lower than the amount needed to distribute Line 14 at the same proration as Line 1. While the appropriation language permits money to be moved from Line 14 to the Basic Formula, it does not allow moving money from the Basic Formula to Line 14. Consequently, lower proration factors are necessary on Lines 14A and B than on Lines 1A and B for the 2004-05 year.

- d. The equalized operating levy used in Lines 1 and 2 is generally the sum of the 2004-05 adjusted Incidental and Teachers' Fund levies. The maximum levy is \$4.95 for Line 1 and \$4.70 for Line 2. The equalized operating levy on Lines 1 and 14 is the combined 2004-05 adjusted Incidental and Teachers' Fund levies plus a calculated levy due to reassessment and/or a designated levy. (See later topic on Line 1 Calculated Tax Levy.) Approximately 280 districts have a calculated operating levy (add on) and 75 districts have a designated levy in the September 2004 calculations.
- e. For the 2004-05 year, the State Tax Commission certified all county sales ratios at 33.33 percent.
- f. The assessed valuation used in the current year's (2004-05) formula calculation on Line 2 is the average of the December 31, 2002 and December 31, 2003 assessed valuations as certified to DESE on the **Annual Report of the County Clerk to the State Board of Education**.
- g. The amounts used in the formula calculation for Lines 3-9, deductions, come from the 2003-04 ASBR, the **Annual Report of the County Clerk to the State Board of Education**, and the DESE payment files. Only the amounts reported for school purposes (Incidental Fund AND Teacher's Fund) are used as deductions.
- h. The Line 14 calculation (Free and Reduced Lunch/At-Risk) uses the Free and Reduced Lunch eligible pupil count that the district certified to DESE as eligible for free or reduced lunch (not necessarily eating in the cafeteria) on the last Wednesday in January 2004 on Core Data Screen 15. The number of free and reduced lunch eligible pupils in the 2004-05 calculation is 355,606. The 2004-05 Line 14 distribution, as calculated in September, is approximately \$366 million.
- i. In order to determine whether your district is hold harmless, examine the district's monthly Basic Formula calculation sheet (the monthly printout coded SA128 in the upper left hand corner). If Line B, the "2004-05 DISTRICT APPORTIONMENT PER EP (INCLUDES LINE 14)" equals Line D, the "2004-05 PAYMENT AMOUNT PER EP (INCLUDES LINE 14 PER EP)", the district is not a hold harmless district. The September 2004 calculation yielded 61 hold harmless districts. There were 60 hold harmless districts in the June 2004 calculation for the 2003-04 year.

Version 3.6 of the Basic Formula Calculation Program is available on the School Finance webpage under School Finance Tools. Please be sure the district has downloaded the most current version before completing future formula simulations.

Line 1 Calculated Tax Levy

As previously stated, some districts have a calculated levy used in Lines 1 and 14 of the Basic Formula and Line 14 calculations. A calculated levy is applicable when a district's entitlement would decrease due to a decrease in the tax rate resulting from reassessment. In a year in which a district increases the voluntary rollback and, by doing so, decreases the combined Incidental and Teachers Funds adjusted levy, the calculated levy will be eliminated.

The calculated levy in the September 2004 Basic Formula and Line 14 calculations includes only the add-on included in the June 2004 calculation for fiscal year 2003-04. The final add-on for 2003-04 will be determined when DESE receives the final 2003 tax rate ceiling data from the State Auditor's Office (SAO). Some districts may be entitled to a new calculated levy as a result of the change from the final 2003 ceiling to the 2004 ceiling. However, at the time of the September calculation, the SAO had not certified the 2004 tax rate ceiling for all districts and any new add-on could not be computed. Consequently, changes may be made to a district's calculated levy in future months. The 2004-05 calculated levy will be the cumulative add-on applied in previous years plus any new adjustment for 2004-05.

If your district's calculation does not reflect a calculated levy in the September 2004 Basic Formula calculation, but the district believes it is entitled to one, please contact the School Finance Section at (573) 751-0357. Please be prepared to explain why your district should receive a calculated levy. The calculated levy formula:

$$\text{Tax Rate Reduction due to reassessment}^* \times [1 - (\text{average district AV of first and second previous year} / \text{current year payment EP} \div \text{GTB of current payment year}) \times \text{income factor not to exceed 1.00}] = \text{amount to add to actual adjusted Incidental + Teachers Funds tax rate}$$

*This reduction will be the lesser of the tax rate ceiling reduction or the reduction in the sum of the Incidental, Teachers, and Capital Projects Funds tax rates. If a district votes an increase in a year of reassessment, the tax rate ceiling reduction will be used to compute the adjustment. Adjustments may be necessary in future months if such a voted increase occurred.

A calculated levy calculation program is available at the following web site for your assistance:

<http://dese.mo.gov/divadm/finance/tools/>.

2004-05 Proposition C Sales Tax Payment (1st Live Payment)

The Proposition C Sales Tax payment for September 2004 was updated to use actual 2003-04 eligible pupil (EP) data. The September payment was adjusted (increased or decreased) so the year-to-date amount was correct based on the district's prior year (2003-04) actual EP and total Proposition C dollars through September.

*The 2004-05 approved state budget reflects projected Proposition C revenue of \$706,400,000. The 2004-05 payment EP for Proposition C (2003-04 actual EP) are estimated at 880,000. Based on these data estimates, the 2004-05 estimated Proposition C payment is **\$802.73 per EP** (\$706,400,000 ÷ 880,000). Economic factors and the actual 2003-04 EP will affect this number. The projection will be revised periodically to reflect data changes.*

2004-05 Fair Share Payment (1st Live Payment)

The Fair Share payment for September 2004 was updated to use actual 2003-04 average daily attendance (ADA) data. The September payment was adjusted (increased or decreased) so the year-to-date amount was correct based on the district's prior year (2003-04) actual ADA and total Fair Share dollars through September.

*The 2004-05 approved state budget reflects projected Fair Share revenue of \$22,500,000. The 2004-05 payment ADA for Fair Share (2003-04 actual ADA) are estimated at 860,000. Based on these data estimates, the 2004-05 estimated Fair Share payment is **\$26.16 per ADA** (\$22,500,000 ÷ 860,000). Economic factors and the actual 2003-04 ADA will affect this number. The projection will be revised periodically to reflect data changes.*

Free Textbook Payment

The 2004-05 Free Textbook Payment will be transferred by ACH on September 30, 2004. Information about this payment will be posted on the School Finance web page upon completion of the calculation.

The 2004-05 approved state budget reflects projected Free Textbook revenue at \$73,950,000. The 2004-05 actual revenue is now known and is \$77,191,745. This is an increase of 16.1% over the 2003-04 amount of \$66,481,621.

The projected September 2003 membership to be used in the 2004-05 Free Textbook payment is 892,000. The 2004-05 estimated Free Textbook payment is **\$86.54** per September 2003 FTE membership ($\$77,191,745 \div 892,000$). If the actual September membership is lower than the projected 892,000, the payment per membership will be greater than \$86.54, but is not likely to exceed \$87.10.

2004-05 District Revenue Projections

Now that the district has current 2004-05 Basic Formula and Line 14 (At-Risk) Revenue Projections and the final 2004-05 tax levy, the district should review its revenue projections in each area and consider appropriate budget adjustments. Remember, a district may not receive the amount indicated on Line H, Basic Formula Apportionment because of prior year adjustments. In revising budget amounts for Basic Formula and Line 14, the district will also need to consider the positive or negative correction from the prior year, which will first be determined in October. The prior year correction will impact the actual revenue the district should expect to receive in 2004-05. Periodic reviews of budgeted revenues and expenditures are advisable.

September 2003 Membership Report to the Counties

Prior year September membership data (September 2003) are used by the county to calculate the 2004-05 distribution of Fines, Escheats, etc., as well as for the apportionment of State Assessed Railroad and Utilities revenue. A September membership report, which indicates membership data broken down by county as submitted to DESE by each district, will be transmitted to each county by September 30, 2004.

The September membership report to the county is only as accurate as the data reported by the district to DESE. The School Finance staff has compared the 2003 data by county to the 2002 data by county and communicated with the district if it appeared the district might have reversed the data. The district has had a year to make changes to the September 2003 membership data so that the data are accurate for 2004-05 payments. However, if the county or district identifies other changes to the September 2003 membership, the district must make changes to Core Data Screen 16 and submit appropriate screen prints to School Finance. Any changes made to the September 2003 membership after September 16, 2004, will not be reflected in the report sent to the counties.

September 2004 Membership Count

The last Wednesday in September (September 29, 2004) is the membership count day and the enrollment count day. On Screen 16 of the 2004-05 October Core Data Cycle, report the September 29, 2004, enrollment data by male/female in the appropriate categories and report the September 29, 2004, membership data by county. The Core Data Collection System Manual provides the definitions for September enrollment and membership. Please enter and save data on the October cycle screens by October 15, 2004.

Reminders regarding reporting of enrollment and membership for students attending districts outside their district of residence:

- 1) District paid tuition – When the district of residence pays another district full tuition, the district of residence will report the student in membership but not in enrollment. Such students are known as Resident II students to the district of residence. The district receiving the tuition and educating the student will report the student in non-resident enrollment but will not include the student in membership. The district educating the student must provide attendance and membership data to the district of residence.
- 2) Parent paid tuition – When a parent pays tuition for a student to attend another district, the district of residence will not report the student in enrollment or membership. The district receiving the tuition from the parent and educating the student will report the student in non-resident enrollment but will not include the student in membership.
- 3) Local effort – When a district pays local effort only (as opposed to full tuition) to another district for a student attending that district, the district paying the local effort will not report the student in enrollment or membership. The district receiving the local effort payment and educating the student reports the student in resident enrollment and in membership.

Audit Reports

While state statutes do not require the 2003-04 school district audit reports to be submitted to DESE until October 31, 2005, the School Finance Section recommends the district send the 2003-04 audit report as soon as the school board has reviewed and approved it. Charter school audit reports are required to be submitted annually. Therefore, the charter school 2003-04 audit reports are due by October 31, 2004. A sixty-day extension is available and will be granted to any charter school requesting it. No extensions are allowed by state law beyond sixty days. Each district/school is responsible for sending School Finance a copy of the audit report, accompanying management letter (if one is issued by the independent auditor), and a copy of the board minutes indicating approval of the audit report.

Since many districts/schools will be receiving and reviewing their 2003-04 audit reports in the near future, please ensure the ending debt balances in the current year audit report (on the financial statements and/or in the Notes to the Financial Statements) agree to the June 30, 2004 Annual Secretary of the Board Report (ASBR) balances in Part IV, Long and Short Term Debt. It is also advisable to ensure the Notes to the Financial Statements agree to the debt reported on the financial statements in the audit report. Prior year reviews of these data have noted instances where the data on the financial statements in the audit reports are different than the data in the Notes section and/or on the district's ASBR. Any discrepancies in the 2003-04 audit report data should be resolved with the district's independent auditor. If changes are necessary to the ASBR, please revise and re-submit the ASBR as soon as possible.

Districts and charter schools should also review the Schedule of Selected Statistics and ensure the data reported on it are accurate. School Finance will perform comparisons between various figures on the Schedule of Selected Statistics with those reported on the ASBR and in Core Data and will send audit comparison letters to schools where differences fall outside of a set tolerance range. The figures included in the data comparisons are the student data counts, the transportation data, the at-risk expenditures, and the PDC expenditures. Verification of the data prior to submission of the audit report will minimize the number of audit comparison letters sent later in the year and will ensure more accurate basic formula and transportation payments to the districts.

Management Discussion & Analysis (MD&A) in the Audit Report

Desk reviews of the 2002-03 audit reports suggest that schools are confused about what is required by the Governmental Accounting Standards Board (GASB) Statement #34 to be in the MD&A. School Finance provided information about these requirements with the June 2002 monthly memo. A separate document with the required information has been posted with this monthly memo. (This document was extracted from the GASB 34 overview posted to the School Finance webpage.) Please review this information and contact the school's independent auditor or Denise Pierce, Director of School Finance, at (573) 751-0357 if you have any questions about the MD&A requirements.

Minimum Salary Requirements

Section 163.172.1, RSMo, states:

"In school year 1994-95 and thereafter, the minimum teacher's salary shall be eighteen thousand dollars. Beginning in the school year 1996-97, for any full-time teacher with a master's degree and at least ten years teaching experience in a public school or combination of public schools, the minimum salary shall be twenty-four thousand dollars."

All teachers are to receive at least their FTE proration of the applicable state minimum salary. Teachers include study hall teachers, in-school suspension teachers, and all others for whom the students' hours are included in the average daily attendance calculation for state aid.

The penalty for noncompliance with the minimum salary requirements of Section 163.172, RSMo, is established in Section 163.021.3, RSMo. The statutory penalty for noncompliance is a reduction of the Basic Formula to the 1993-94 amount per eligible pupil. Therefore, it is important that each district ensures compliance with the minimum salary requirements. Questions on specific situations may be directed to the School Finance staff at (573) 751-0357.

Remediation Attendance Hours Outside the Traditional School Day

Section 167.640, RSMo, discusses student promotion and remediation.

Section 167.640.1, RSMo, states:

“School districts may adopt a policy with regard to student promotion which may require remediation as a condition of promotion to the next grade level for any student identified by the district as failing to master skills and competencies established for that particular grade level by the district board of education.”

Section 167.640.3, RSMo, states:

“School districts providing remediation pursuant to this section outside of the traditional school day may count extra hours of instruction in the calculation of average daily attendance as defined in section 163.011, RSMo.”

The question “*what attendance hours count toward the inclusion of additional attendance hours?*” has been asked numerous times. The previously quoted section of the law states that the additional attendance hours outside the traditional school day are for those students requiring remediation as a condition for promotion to the next grade level based on the district developed policy to identify such students. While a district may have had an after-school tutoring program in place for several years to meet the varying needs of students, that program may not correspond to the remedial program based on district policy as required in Section 167.640.1, RSMo. After-school programs not specifically addressing remediation as a condition for promotion should not be recorded on Screen 14/14A as Remedial Hours. Remediation outside the regular school day for Step 1 students can be counted for additional attendance hours.

Section 167.645, RSMo, provides for additional reading improvement plans for students in grades four through six who test below a certain target grade level (below the second-grade level for a fourth grader). Section 167.645.3, RSMo, requires a minimum thirty hours of additional reading instruction or practice outside the regular school day for a student in grades four through six whose reading assessment indicated the student is reading below the target grade level. If your district provides reading improvement instruction for such students, the attendance hours of those students in such instruction outside the normal school day must be recorded separately from the students’ normal school day attendance.

In addition, Section 167.340.2, RSMo, states:

“Beginning July 1, 2000, if a school district provides reading improvement instruction for students in kindergarten through third grade who do not meet the district’s objectives for reading as demonstrated by performance on the district’s chosen methods of reading assessment, such students who receive reading improvement instruction pursuant to this subsection may be counted for additional average daily attendance for state school aid during their reading improvement instruction time if such time falls outside normal school hours.”

If your district provides reading improvement instruction for students in grades kindergarten through three, the attendance hours of those students in such instruction outside the normal school day must be recorded separately from the students’ normal school day attendance. Guidelines for this program have been developed by the Division of School Improvement.

If your district is providing remediation during the 2004-05 year as described in Sections 167.340, 167.640 or 167.645, RSMo, the attendance hours of those students in such instruction outside the normal school day must be recorded separately from the students’ normal school day attendance. These attendance hours will be reported in the June Core Data cycle as REMEDIAL HOURS on Screens 14 and 14A.

SCHOOL TRANSPORTATION

2004-05 Transportation Aid Calculation

The first live 2004-05 transportation payment will be made in November 2004 using the 2003-04 transportation data from the district’s Annual Secretary of the Board Report. Please verify that the district’s Application for State Transportation Aid, School Bus Depreciation Schedule, and Facility Depreciation Schedule are complete and accurate.

Safe Transportation of Pre-School Age Children in School Buses

The National Highway & Traffic Safety Administration (NHTSA) recommends these guidelines be followed when pre-school age children are transported in a school bus:

1. Each child should be transported in a Child Safety Restraint System (CSRS) suitable for the child's weight and age that meets applicable Federal Motor Vehicle Safety Standards (FMVSSs).
2. Each child should be properly secured in the CSRS.
3. The CSRS should be properly secured to the school bus seat, using anchorages that meet FMVSSs.

Missouri law (Section 210.104, RSMo) requires that children under the age of 4 be transported in a CSRS regardless of weight.

NHTSA testing has shown that children 40 lbs and over are safely transported on school buses without restraint. Based on NHTSA's research and testing, NHTSA, DESE, and the Highway Patrol all recommend that pre-school children 4 and over but under 40 lbs. be transported in CSRS.

Ridership Lists

On October 13, 2004 (the second Wednesday in October), the compilation of the school district's first ridership list for the year should be completed. This list should only include students' names who regularly rode the buses living both one mile or more from school (eligible students for state aid) and less than one mile (ineligible students for state aid). The ridership list from the second Wednesday of October will be combined with the ridership list from the second Wednesday of February (February 9, 2005) and reported at the end of the year on the Application for State Transportation Aid (Section I Pupil Data - A thru F) of the 2004-2005 Annual Secretary of the Board Report (ASBR) due August 15, 2005.

Handicapped Routes

Handicapped children who have special transportation needs should have those needs detailed in the child's IEP (Individualized Educational Plan) under Related Services. These needs may include the requirement for a handicapped aide on the bus with the child, door-to-door service, transportation for a handicapped child living less than one mile from school, and transportation for special education summer school. If written into the child's IEP, these expenses are considered eligible for state transportation aid.

If handicapped children are transported on a regular non-handicapped route with no significant additional cost for transporting that child, the student is reported as a non-handicapped student for ridership, miles, and cost. Conversely, if the majority of students on the bus are handicapped, the entire route is coded as a handicapped route when reporting ridership, miles, and cost for this route.

Properly reporting the direct handicapped route ridership, miles and costs such as the handicapped bus drivers' and bus aides' salaries and benefits, fuel, and supplies, and prorating "global" expenses such as administrator's salary and benefits, support staff's salary and benefits, mechanic's salary and benefits, utilities, insurance, facility operational costs and coding them as handicapped expenditures gives a true picture of the cost of non-handicapped routes versus handicapped routes.

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